

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Chesaning	County Saginaw
Audit Date February 28, 2005	Opinion Date May 13, 2005	Date Accountant Report Submitted to State: August 11, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

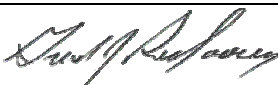
We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

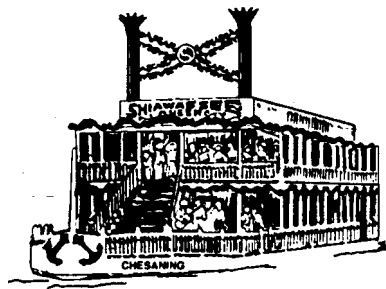
You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<b>X</b>		
Reports on individual federal financial assistance programs (program audits).			<b>X</b>
Single Audit Reports (ASLGU).			<b>X</b>
Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

# Village of Chesaning

Chesaning, Michigan



'Showboat City'

## Financial Statements

For the Year Ended  
February 28, 2005

# VILLAGE OF CHESANING

## FINANCIAL STATEMENTS

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# VILLAGE OF CHESANING

## FINANCIAL STATEMENTS

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## INDEPENDENT AUDITORS' REPORT

May 13, 2005

Village Council  
Village of Chesaning  
Chesaning, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***Village of Chesaning, Michigan***, as of and for the year ended February 28, 2005, as listed in the table of contents. These financial statements are the responsibility of the ***Village of Chesaning, Michigan's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***Village of Chesaning, Michigan***, as of February 28, 2005, and the respective changes in financial position, and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund and major special revenue fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note IV. F., the Village has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board, Statement No. 34, Basic Financial Statements – and Managements' Discussion and Analysis – for State and Local Governments, as amended and interpreted, as of March 1, 2004.

The Management's Discussion and Analysis listed in the table of contents on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Chesaning's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## Management's Discussion and Analysis

As management of *Village of Chesaning, Michigan*, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2005. We encourage readers to consider the information presented here.

### Financial Highlights

- The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$3,889,283 (*net assets*). Of this amount, \$493,317 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$257,479.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$432,170, a decrease of \$232,186 in comparison with the prior year. This is due primarily to significant street improvement projects that were completed during the fiscal. More than 95 percent of this total amount, or \$412,170, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$209,483, or 22 percent of total general fund expenditures.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include general government, public safety, public works, health and welfare, and recreation and cultural. The business-type activities of the Village include wastewater treatment and water operations.

The government-wide financial statements include not only the Village itself (known as the *primary government*), but also the legally separate Downtown Development Authority and Economic Development Corporation for which the Village is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 10-11 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and major streets funds, each of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 12-17 of this report.

**Proprietary funds.** The Village maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its wastewater treatment and water operations. The *internal service fund* is an accounting device used to accumulate and allocate cost internally among the Village's various functions. The Village uses the internal service fund to account for its equipment pool operations. Because these services predominately benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater treatment and water operations, both of which are considered to be major funds of the Village. The internal service fund is presented as a separate column in the proprietary fund financial statements.



The basic proprietary fund financial statements can be found on pages 18-20 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for governmental funds.

The basic fiduciary fund financial statement can be found on page 21 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-41 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the accompanying notes. Combining and individual fund statements and schedules can be found on pages 42-49 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Village of Chesaning, assets exceeded liabilities by \$3,889,283 at the close of the most recent fiscal year.

One of the largest portions of the Village's net assets (69 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### Village of Chesaning's Net Assets

	Governmental Activities <u>2005</u>	Business-Type Activities <u>2005</u>	Total <u>2005</u>
Current and other assets	\$ 799,838	\$ 514,602	\$ 1,314,440
Capital assets	<u>326,224</u>	<u>3,817,598</u>	<u>4,143,822</u>
Total assets	<u>1,126,062</u>	<u>4,332,200</u>	<u>5,458,262</u>
Long-term liabilities			
outstanding	15,403	1,445,000	1,460,403
Other liabilities	<u>69,105</u>	<u>39,471</u>	<u>108,576</u>
Total liabilities	<u>84,508</u>	<u>1,484,471</u>	<u>1,568,979</u>
Net assets:			
Invested in capital			
assets, net of			
related debt	326,224	2,372,598	2,698,822
Restricted	-	697,144	697,144
Unrestricted	<u>715,330</u>	<u>(222,013)</u>	<u>493,317</u>
Total net assets	<u>\$ 1,041,554</u>	<u>\$ 2,847,729</u>	<u>\$ 3,889,283</u>

An additional portion of the Village's net assets (18 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (13

percent or \$493,317) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in all three categories of net assets for the government as a whole, as well as for its separate governmental activities but does reflect a negative balance in the unrestricted category of net assets for the business-type activities.

The Village's net assets decreased by \$257,479 during the current fiscal year. This decrease largely reflects the increased expenditures in street maintenance.

### Village of Chesaning's Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>
Revenue:			
Program revenue:			
Charges for services	\$ 233,128	\$ 729,092	\$ 962,220
Operating grants and contributions	205,831	-	205,831
General revenue:			
Property taxes	528,495	114,671	643,166
Grants and contrib. not restricted to specific programs	254,795	-	254,795
Other	5,404	7,494	12,898
Transfers	<u>5,900</u>	<u>(5,900)</u>	<u>-</u>
Total revenue	<u>1,233,553</u>	<u>845,357</u>	<u>2,078,910</u>
Expenses:			
Legislative	18,059	-	18,059
General government	333,332	-	333,332
Public safety	230,106	-	230,106
Public works	779,645	-	779,645
Recreation and cultural	75,596	-	75,596
Sanitary sewer	-	588,532	588,532
Water	<u>-</u>	<u>311,119</u>	<u>311,119</u>
Total expenses	<u>1,436,738</u>	<u>899,651</u>	<u>2,336,389</u>
Increase (decrease) in net assets	(203,185)	(54,294)	(257,479)
Net assets – beginning of year	<u>1,244,739</u>	<u>2,902,023</u>	<u>4,146,762</u>
Total net assets	<u>\$ 1,041,554</u>	<u>\$ 2,847,729</u>	<u>\$ 3,889,283</u>

**Governmental activities.** Governmental activities decreased the Village's net assets by \$203,185 resulting in a significant decrease in the net assets of the Village. Key elements of this decrease are as follows:

- Grants and contributions not restricted to specific programs was composed of the sales tax revenues shared by the State of Michigan under the Revenue Sharing Act and the State's allocation was reduced during the year.
- The majority of the Village expenses remained relatively constant but the expenses related to highway and street maintenance were more than expected and more than the revenues generated in the current year in those activities.

**Business-type activities.** Business-type activities decreased the Village's net assets by \$54,294, resulting in minimal growth in the net assets of the Village. Key elements of this decrease are as follows:

- Expenses continue to increase in connection with the improvements to the wastewater treatment system that are required by the Department of Environmental Quality, which includes the evaluation of the system to give direction to those improvements.
- The new user fees that were expected to generated increased charges for services have not kept pace with the increased costs.

### **Financial Analysis of the Government's Funds**

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$432,170, a decrease of \$232,186 in comparison with the prior year. Approximately 95 percent of this total amount (\$412,170) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it is the balance on the long-term advance to the Wastewater Treatment Fund and will only be liquidated over time.

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved fund balance of the general fund was \$209,483, and total fund balance was \$229,483. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 22 percent of total general fund expenditures.

The fund balance of the Village's general fund increased by \$8,470 during the current fiscal year. The slight increase is attributable to revenues in excess of expenditures.

The major streets fund has a total fund balance of \$72,104, which decreased by \$172,085 during the year. The decrease is primarily attributable to the significant road repairs and maintenance that were necessary during the current year.

The local streets fund has a total fund balance of \$12,156, which decreased by \$79,366 during the year. The decrease is attributable to the significant road repairs and maintenance that were necessary during the current year.

The remaining special revenue funds did not experience significant decreases or increases in fund balance. This is due to the revenue sources and expenditures of these activities remaining relatively consistent.

**Proprietary funds.** The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted (deficit) net assets of the wastewater treatment and water funds at the end of the year amounted to \$(274,290) and \$42,265, respectively. The wastewater fund had a decrease in net assets for the year of \$43,598 and the water fund had an decrease in net assets for the year of \$19,574. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Village's business-type activities.

### General Fund Budgetary Highlights

There were no differences between the original and final amended budgets for expenditures because the Village did not have significant changes in activity during the year that were expected to require the budget be altered.

Budget to actual comparisons for the Village's general fund were generally favorable except the general government and garbage collection activities. The general government activities exceed the final budget as a result of significantly higher charges for retirement contributions than anticipated. The garbage collection activity exceed the final budget as a result of increased charges from the Village's contractor which are driven by actual usage.

### Capital Asset and Debt Administration

**Capital assets.** The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2005, amounted to \$2,698,822 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment.

<b>Village of Chesaning's Capital Assets</b>			
(net of depreciation)			
	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>
Land	\$ 4,000	\$ 91,135	\$ 95,135
Building	54,298	-	54,298
Plant and facilities	-	3,678,295	3,678,295
Machinery and equipment	166,135	46,068	212,203
Vehicles	101,178	2,100	103,278
Office equipment	<u>613</u>	<u>-</u>	<u>613</u>
Total net assets	<u>\$ 326,224</u>	<u>\$ 3,817,598</u>	<u>\$ 4,143,822</u>

Additional information on the Village's capital assets can be found in note 5 on pages 25-26 of this report.

**Long-term debt.** At the end of the current fiscal year, the Village had total debt outstanding of \$1,460,403. Of this amount, \$1,445,000 represents bonds secured solely by specified revenue sources (i.e., revenue bonds) and \$15,403 represents accrued compensated absences.

**Village of Chesaning's Outstanding Debt**  
General Obligation and Revenue Bonds

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2005</u>	<u>2005</u>	<u>2005</u>
Revenue bonds	\$ -	\$ 1,445,000	\$ 1,445,000
Accrued compensated absences	<u>15,403</u>	<u>-</u>	<u>15,403</u>
Total net debt	<u>\$ 15,403</u>	<u>\$ 1,445,000</u>	<u>\$ 1,460,403</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the Village is \$4,935,140, which is significantly in excess of the Village's outstanding general obligation debt.

Additional information on the Village's long-term debt can be found in note 8 on pages 61-62 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Village's budget for the 2005-06 fiscal year:

- The unemployment rate for the Saginaw County metropolitan area (the Village is in the Saginaw area) has continued to climb and the employment outlook has not improved.
- The Village is comprised principally of residential areas. There is a small stable business base that includes some light industrial operation but the Village has difficulty attracting new business.
- Inflationary trends in the region compare favorably to national indices.

**Requests for Information**

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Office, 1100 West Broad Street, Chesaning, Michigan, 48616.

**VILLAGE OF CHESANING**  
**STATEMENT OF NET ASSETS**  
**FEBRUARY 28, 2005**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 436,689	\$ 49,032	\$ 485,721	\$ 109,788
Receivables	103,766	27,809	131,575	76,252
Restricted cash and cash equivalents	-	697,144	697,144	-
Internal balances	259,383	(259,383)	-	-
Capital assets, net:				
Assets not being depreciated	4,000	91,135	95,135	-
Assets being depreciated	322,224	3,726,463	4,048,687	-
<b>Total assets</b>	<b>1,126,062</b>	<b>4,332,200</b>	<b>5,458,262</b>	<b>186,040</b>
<b>Liabilities</b>				
Accounts payable	69,105	39,471	108,576	8,155
Noncurrent liabilities:				
Due within one year	15,403	115,000	130,403	37,152
Due in more than one year	-	1,330,000	1,330,000	226,000
<b>Total liabilities</b>	<b>84,508</b>	<b>1,484,471</b>	<b>1,568,979</b>	<b>271,307</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	326,224	2,372,598	2,698,822	-
Restricted for:				
Capital improvements and replacements	-	697,144	697,144	-
Unrestricted (deficit)	715,330	(222,013)	493,317	(85,267)
<b>Total net assets</b>	<b>\$ 1,041,554</b>	<b>\$ 2,847,729</b>	<b>\$ 3,889,283</b>	<b>\$ (85,267)</b>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 28, 2005**

<b>Functions / Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	
<b>Primary government</b>				
Governmental activities:				
Legislative	\$ 18,059	\$ -	\$ -	\$ (18,059)
General government	333,332	46,442	-	(286,890)
Public safety	230,106	99	2,091	(227,916)
Public works	779,645	141,800	203,740	(434,105)
Recreation and culture	75,596	22,286	-	(53,310)
Planning and development	-	22,501	-	22,501
Total governmental activities	<u>1,436,738</u>	<u>233,128</u>	<u>205,831</u>	<u>(997,779)</u>
Business-type activities:				
Wastewater treatment	588,532	472,939	-	(115,593)
Water	311,119	256,153	-	(54,966)
Total business-type activities	<u>899,651</u>	<u>729,092</u>	<u>-</u>	<u>(170,559)</u>
Total primary government	<u>\$ 2,336,389</u>	<u>\$ 962,220</u>	<u>\$ 205,831</u>	<u>\$ (1,168,338)</u>
<b>Component units</b>				
Downtown Development Authority	<u>\$ 53,060</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (53,060)</u>

continued...

**VILLAGE OF CHESANING**  
**STATEMENT OF ACTIVITIES (Concluded)**  
**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (997,779)	\$ (170,559)	\$ (1,168,338)	\$ (53,060)
General revenues:				
Property taxes	528,495	114,671	643,166	125,408
Grants and contributions not restricted to specific programs	254,795	-	254,795	-
Unrestricted investment earnings	5,404	7,494	12,898	1,074
Transfers	5,900	(5,900)	-	-
Total general revenues and transfers	794,594	116,265	910,859	126,482
Change in net assets	(203,185)	(54,294)	(257,479)	73,422
Net assets (deficit), beginning of year, as restated	1,244,739	2,902,023	4,146,762	(158,689)
<b>Net assets (deficit), end of year</b>	<u><u>\$ 1,041,554</u></u>	<u><u>\$ 2,847,729</u></u>	<u><u>\$ 3,889,283</u></u>	<u><u>\$ (85,267)</u></u>

The accompanying notes are an integral part of these financial statements.



**VILLAGE OF CHESANING, MICHIGAN**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**FEBRUARY 28, 2005**

	GENERAL	MAJOR STREETS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash and cash equivalents	\$ 180,916	\$ 63,271	\$ 130,931	\$ 375,118
Receivables:				
Accounts	2,814	-	-	2,814
Taxes - delinquent	34,073	-	3,217	37,290
Due from component units	2,510	-	22	2,532
Due from other governmental units	45,130	11,736	4,264	61,130
Advance to other funds	20,000	-	-	20,000
<b>TOTAL ASSETS</b>	<b>\$ 285,443</b>	<b>\$ 75,007</b>	<b>\$ 138,434</b>	<b>\$ 498,884</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 53,080	\$ 1,397	\$ 7,072	\$ 61,549
Accrued liabilities	2,880	1,506	779	5,165
<b>TOTAL LIABILITIES</b>	<b>55,960</b>	<b>2,903</b>	<b>7,851</b>	<b>66,714</b>
<b>FUND BALANCES</b>				
Reserved for advance to Wastewater Treatment Fund	20,000	-	-	20,000
Unreserved - undesignated, reported in				
General fund	209,483	-	-	209,483
Special revenue funds	-	72,104	130,583	202,687
<b>TOTAL FUND BALANCES</b>	<b>229,483</b>	<b>72,104</b>	<b>130,583</b>	<b>432,170</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 285,443</b>	<b>\$ 75,007</b>	<b>\$ 138,434</b>	<b>\$ 498,884</b>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**FEBRUARY 28, 2005**

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Fund balances - total governmental funds	\$ 432,170
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	284,431
Deduct - accumulated depreciation	(205,959)

An internal service fund is used by management to charge the costs of certain equipment usage to individual funds. A portion of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in the internal service funds	546,315
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - long-term portion of compensated absences payable	<u>(15,403)</u>
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Net assets of governmental activities	<u><u>\$ 1,041,554</u></u>
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The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	GENERAL	MAJOR STREETS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>				
Taxes and special assessments	\$ 487,034	\$ -	\$ 41,461	\$ 528,495
Licenses and permits	22,501	-	-	22,501
Intergovernmental:				
State	256,886	149,485	54,255	460,626
Charges for services	114,357	-	2,337	116,694
Interest	881	1,943	1,295	4,119
Reimbursements and refunds	20,156	-	-	20,156
Other	61,059	9,668	3,050	73,777
<b>TOTAL REVENUES</b>	<b>962,874</b>	<b>161,096</b>	<b>102,398</b>	<b>1,226,368</b>
<b>EXPENDITURES</b>				
Legislative	18,059	-	-	18,059
General government	346,803	-	-	346,803
Public safety	212,745	-	-	212,745
Public works	278,707	333,181	175,969	787,857
Recreation and culture	83,090	-	-	83,090
Capital outlay	10,000	-	-	10,000
<b>TOTAL EXPENDITURES</b>	<b>949,404</b>	<b>333,181</b>	<b>175,969</b>	<b>1,458,554</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>13,470</b>	<b>(172,085)</b>	<b>(73,571)</b>	<b>(232,186)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	5,000	5,000
Transfers (out)	(5,000)	-	-	(5,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(5,000)</b>	<b>-</b>	<b>5,000</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>8,470</b>	<b>(172,085)</b>	<b>(68,571)</b>	<b>(232,186)</b>
FUND BALANCES, BEGINNING OF YEAR	221,013	244,189	199,154	664,356
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 229,483</b>	<b>\$ 72,104</b>	<b>\$ 130,583</b>	<b>\$ 432,170</b>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**FOR THE YEAR ENDED FEBRUARY 28, 2005**

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Net change in fund balances - total governmental funds	\$	(232,186)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Deduct - depreciation expense		(11,799)
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. A portion of the net revenue (expense) the fund is reported with governmental activities.

Add - net operating income from governmental activities in internal service fund		24,807
Add - net operating income from governmental activities in internal service fund from prior years		1,134
Add - investment income from governmental internal service funds		1,285
Deduct - net loss on sale of capital assets		(12,115)
Add - net transfers		5,900

Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

Add - decrease in accrual for compensated absences		19,789
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Change in net assets of governmental activities	\$	(203,185)
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The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING, MICHIGAN**

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES</b>				
Taxes	\$ 514,333	\$ 514,333	\$ 487,034	\$ (27,299)
Licenses and permits	15,000	15,000	22,501	7,501
Intergovernmental:				
State	246,000	246,000	256,886	10,886
Charges for services	114,000	114,000	114,357	357
Interest	-	-	881	881
Reimbursements and refunds	24,000	24,000	20,156	(3,844)
Other	56,550	56,550	61,059	4,509
<b>TOTAL REVENUES</b>	<b>969,883</b>	<b>969,883</b>	<b>962,874</b>	<b>(7,009)</b>
<b>EXPENDITURES</b>				
Legislative	19,390	19,390	18,059	1,331
General government	285,053	285,053	346,803	(61,750)
Public safety	208,157	208,157	212,745	(4,588)
Public works				
Garbage collection	99,000	99,000	120,649	(21,649)
Department of public works	181,595	181,595	158,058	23,537
Recreation and culture				
Parks and recreation	65,880	65,880	61,176	4,704
Airport	8,505	8,505	9,140	(635)
Community center	9,356	9,356	12,774	(3,418)
Capital outlay	12,200	12,200	10,000	2,200
<b>TOTAL EXPENDITURES</b>	<b>889,136</b>	<b>889,136</b>	<b>949,404</b>	<b>(60,268)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>80,747</b>	<b>80,747</b>	<b>13,470</b>	<b>(67,277)</b>
<b>OTHER FINANCING (USES)</b>				
Transfers (out)	(34,633)	(34,633)	(5,000)	29,633
<b>NET CHANGE IN FUND BALANCES</b>	<b>46,114</b>	<b>46,114</b>	<b>8,470</b>	<b>(37,644)</b>
FUND BALANCE, BEGINNING OF YEAR	221,013	221,013	221,013	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 267,127</b>	<b>\$ 267,127</b>	<b>\$ 229,483</b>	<b>\$ (37,644)</b>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
MAJOR STREETS FUND**

**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES</b>				
Intergovernmental:				
State	\$ 135,000	\$ 135,000	\$ 149,485	\$ 14,485
Interest	3,700	3,700	1,943	(1,757)
Other	-	-	9,668	9,668
<b>TOTAL REVENUES</b>	<u>138,700</u>	<u>138,700</u>	<u>161,096</u>	<u>22,396</u>
<b>EXPENDITURES</b>				
Public works:				
Wages	49,000	49,000	33,305	15,695
Fringe benefits	10,500	10,500	9,800	700
Materials and supplies	4,000	4,000	13,361	(9,361)
Professional services	136,463	136,463	226,406	(89,943)
Equipment rental	38,737	38,737	50,309	(11,572)
<b>TOTAL EXPENDITURES</b>	<u>238,700</u>	<u>238,700</u>	<u>333,181</u>	<u>(94,481)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(100,000)	(100,000)	(172,085)	(72,085)
FUND BALANCES, BEGINNING OF YEAR	<u>244,189</u>	<u>244,189</u>	<u>244,189</u>	<u>-</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 144,189</u>	<u>\$ 144,189</u>	<u>\$ 72,104</u>	<u>\$ (72,085)</u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

**FEBRUARY 28, 2005**

	<b>BUSINESS-TYPE ACTIVITIES</b>			<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS</b>	<b>WASTEWATER TREATMENT FUND</b>	<b>WATER FUND</b>	<b>TOTAL</b>	<b>INTERNAL SERVICE FUND</b>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 49,032	\$ 49,032	\$ 61,571
Accounts receivable	13,525	4,995	18,520	-
Taxes receivable - delinquent	5,199	3,468	8,667	-
Due from other funds	-	-	-	249,395
Due from component units	373	249	622	-
Restricted cash - bond reserve	141,381	107,129	248,510	-
Restricted cash - improvements	231,614	133,442	365,056	-
Restricted cash - replacement	83,578	-	83,578	-
<b>TOTAL CURRENT ASSETS</b>	<b>475,670</b>	<b>298,315</b>	<b>773,985</b>	<b>310,966</b>
<b>CAPITAL ASSETS</b>				
Land	53,112	38,023	91,135	-
Plant and facilities	3,696,086	2,034,110	5,730,196	-
Equipment	165,800	28,724	194,524	306,186
Automobile	30,056	13,195	43,251	277,878
Less accumulated depreciation	(1,653,224)	(588,284)	(2,241,508)	(336,312)
<b>NET CAPITAL ASSETS</b>	<b>2,291,830</b>	<b>1,525,768</b>	<b>3,817,598</b>	<b>247,752</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,767,500</b>	<b>\$ 1,824,083</b>	<b>\$ 4,591,583</b>	<b>\$ 558,718</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 11,663	\$ 5,384	\$ 17,047	\$ 1,567
Accrued liabilities	12,329	10,095	22,424	824
Due to other funds	249,395	-	249,395	-
Bonds payable - current	70,000	45,000	115,000	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>343,387</b>	<b>60,479</b>	<b>403,866</b>	<b>2,391</b>
<b>LONG-TERM LIABILITIES</b>				
Advance from other funds	20,000	-	20,000	-
Bonds payable - net of current portion	705,000	625,000	1,330,000	-
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>725,000</b>	<b>625,000</b>	<b>1,350,000</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>1,068,387</b>	<b>685,479</b>	<b>1,753,866</b>	<b>2,391</b>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	1,516,830	855,768	2,372,598	247,752
Restricted for capital improvements and replacements	456,573	240,571	697,144	-
Unrestricted (deficit)	(274,290)	42,265	(232,025)	308,575
<b>TOTAL NET ASSETS</b>	<b>\$ 1,699,113</b>	<b>\$ 1,138,604</b>	<b>2,837,717</b>	<b>\$ 556,327</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			10,012	
<b>NET ASSETS OF BUSINESS-TYPE ACTIVITIES</b>			<b>\$ 2,847,729</b>	

The accompanying notes are an integral part of these financial statements

**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<b>BUSINESS-TYPE ACTIVITIES</b>			<b>GOVERNMENTAL ACTIVITIES</b>
	<b>WASTEWATER TREATMENT FUND</b>	<b>WATER FUND</b>	<b>TOTAL</b>	<b>INTERNAL SERVICE FUND</b>
<b>OPERATING REVENUES</b>				
Taxes	\$ 69,020	\$ 45,651	\$ 114,671	\$ -
Charges for services	453,621	256,039	709,660	142,866
Other	19,318	114	19,432	-
<b>TOTAL OPERATING REVENUES</b>	<b>541,959</b>	<b>301,804</b>	<b>843,763</b>	<b>142,866</b>
<b>OPERATING EXPENSES</b>				
Personnel services	219,093	143,273	362,366	55,694
Professional services	57,578	23,949	81,527	-
Insurance	6,603	4,471	11,074	-
Supplies	25,303	17,550	42,853	2,282
Collection system	28,108	-	28,108	-
Digester project	24,296	-	24,296	-
Repairs and maintenance	14,903	2,932	17,835	7,444
Equipment rental	21,830	14,666	36,496	-
Utilities	44,130	20,327	64,457	-
Gas and oil	686	3,665	4,351	2,815
Depreciation	86,084	40,463	126,547	39,462
Other	14,567	4,661	19,228	350
<b>TOTAL OPERATING EXPENSES</b>	<b>543,181</b>	<b>275,957</b>	<b>819,138</b>	<b>108,047</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(1,222)</b>	<b>25,847</b>	<b>24,625</b>	<b>34,819</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	4,185	3,309	7,494	1,285
Gain (loss) on sale of capital assets	-	-	-	(12,115)
Interest expense	(50,661)	(38,730)	(89,391)	-
<b>TOTAL NONOPERATING (EXPENSES)</b>	<b>(46,476)</b>	<b>(35,421)</b>	<b>(81,897)</b>	<b>(10,830)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>(47,698)</b>	<b>(9,574)</b>	<b>(57,272)</b>	<b>23,989</b>
<b>TRANSFERS</b>				
Transfers in	4,100	-	4,100	10,000
Transfers out	-	(10,000)	(10,000)	(4,100)
<b>Net transfers</b>	<b>4,100</b>	<b>(10,000)</b>	<b>(5,900)</b>	<b>5,900</b>
<b>CHANGE IN NET ASSETS</b>	<b>(43,598)</b>	<b>(19,574)</b>	<b>(63,172)</b>	<b>29,889</b>
<b>NET ASSETS, BEGINNING OF YEAR, AS RESTATED</b>	<b>1,742,711</b>	<b>1,158,178</b>	<b>2,900,889</b>	<b>526,438</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,699,113</b>	<b>\$ 1,138,604</b>	<b>2,837,717</b>	<b>\$ 556,327</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			10,012	
<b>NET ASSETS OF BUSINESS-TYPE ACTIVITIES</b>			<b>\$ 2,847,729</b>	

The accompanying notes are an integral part of these financial statements.



**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<b>BUSINESS-TYPE ACTIVITIES</b>			<b>GOVERNMENTAL ACTIVITIES</b>
	WASTEWATER TREATMENT FUND	WATER FUND	TOTAL	INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 538,831	\$ 300,884	\$ 839,715	\$ -
Cash received from interfund services	58,556	(249)	58,307	142,866
Cash payments to employees	(213,870)	(134,220)	(348,090)	(56,098)
Cash payments to suppliers for goods and services	(217,459)	(98,451)	(315,910)	(13,438)
Cash payments for interfund services	(21,830)	(14,666)	(36,496)	(68,929)
NET CASH PROVIDED BY OPERATING ACTIVITIES	144,228	53,298	197,526	4,401
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfer in	4,100	-	4,100	10,000
Transfer out	-	(10,000)	(10,000)	(4,100)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	4,100	(10,000)	(5,900)	5,900
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from sale of capital assets	-	-	-	15,084
Acquisition of capital assets	(38,994)	(22,933)	(61,927)	-
Principal paid on long-term debt	(65,000)	(85,000)	(150,000)	-
Interest and fiscal charges paid on long-term debt	(50,661)	(38,730)	(89,391)	-
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(154,655)	(146,663)	(301,318)	15,084
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	4,185	3,309	7,494	1,285
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,142)	(100,056)	(102,198)	26,670
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	458,715	389,659	848,374	34,901
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 456,573	\$ 289,603	\$ 746,176	\$ 61,571
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	\$ (1,222)	\$ 25,847	\$ 24,625	34,819
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	86,084	40,463	126,547	39,462
Change in assets and liabilities:				
Accounts receivable	(3,128)	(920)	(4,048)	-
Due from other funds	-	-	-	(68,929)
Due from component unit	(373)	(249)	(622)	-
Accounts payable	(1,285)	(20,896)	(22,181)	(547)
Accrued liabilities	5,223	9,053	14,276	(404)
Due to other funds	58,929	-	58,929	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 144,228	\$ 53,298	\$ 197,526	\$ 4,401

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING, MICHIGAN**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**

**FEBRUARY 28, 2005**

	<u>AGENCY</u>
	<u>PAYROLL</u>
	<u>FUND</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 5,036</u>
<b>LIABILITIES</b>	
Accrued liabilities	<u>\$ 5,036</u>

The accompanying notes are an integral part of these financial statement

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**I. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES**

The accounting policies of the *Village of Chesaning* (the “Village”) conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

**A. REPORTING ENTITY**

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Village and its component units. The component units discussed below are included in the Village's reporting entity because of the significance of their operational or financial relationship with the Village.

**Discretely Presented Component Units**

**Downtown Development Authority** - The members of the governing board of the Downtown Development Authority are appointed by the Village board. The budgets and expenditures of the Downtown Development Authority must be approved by the Village board. The Village also has the ability to significantly influence operations of the Downtown Development Authority. Complete financial statements of the Downtown Development Authority can be obtained at the Village of Chesaning, 1100 West Broad Street, Chesaning, Michigan 48616.

**Economic Development Corporation** - The expenditures of the Economic Development Corporation must be approved by the Village. The Village also has the ability to significantly influence the operations of the Economic Development Corporation. Complete financial statements of the Economic Development Corporation can be obtained at the Village of Chesaning, 1100 West Broad Street, Chesaning, Michigan 48616.

**Joint Operations**

Under authorization of state statutes, the *Village of Chesaning* joined Chesaning Township and Brady Township to establish and operate a Joint Fire Protection Authority for the mutual advantage of the governments. Two members of the Board of Directors for the Authority are appointed by each Township and one member is appointed by the Village. The records are maintained and funds held by Chesaning Township. The operating and capital budgets are to be funded by a millage from each government. The tax for the Fire Authority on all Village properties is collected by Chesaning Township.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental

## VILLAGE OF CHESANING

### NOTES TO FINANCIAL STATEMENTS

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revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *major streets fund* accounts for the grant revenues and the related operation and maintenance of the major street system.

The government reports the following major proprietary funds:

The *wastewater treatment fund* accounts for the activities of the government's sewage disposal and treatment system.

The *water fund* accounts for the activities of the government's water distribution and treatment system.

Additionally, the Village reports the following fund types:

*Internal service funds* account for equipment usage provided to other departments of the government on a cost reimbursement basis.

*Agency funds* are used to account for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Property taxes are reported as *general revenues* rather than as program revenues.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water enterprise funds are charges to customers for sales and services. The

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY**

**1. CASH AND CASH EQUIVALENTS**

For purposes of the statement of cash flows, the Village considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents.

**2. INVESTMENTS**

Investments, which consist of municipal investment funds, are reported at fair value.

**3. RECEIVABLES**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**4. RESTRICTED ASSETS - CASH AND CASH EQUIVALENTS**

Certain cash accounts are classified as restricted assets on the statement of net assets because their use is limited. In the Enterprise Funds, the "Bond Reserve" account is used for the payment of current debt obligations and the "Improvements" and "Replacement" accounts are to report resources set aside to fund asset renewals, replacements and repairs.

**5. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and water and sewer systems, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of five years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Plant and facilities	20 - 50 years
Equipment	5 - 10 years
Vehicles	5 years

**6. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**7. COMPENSATED ABSENCES**

Vacation and sick days for Village employees are determined by union contracts. Accumulated sick and vacation is accrued when incurred in the proprietary funds. A liability for these amounts is reported in governmental funds only if they matured, for example, as a result of employee resignations and retirements.

The long term portion of unpaid sick and vacation pay that is applicable to governmental fund types is reported in the Statement of Net Assets.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**8. FUND EQUITY**

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

**9. INTERFUND TRANSACTIONS**

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The classification of amounts recorded as subsidies or advances is determined by Village management.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETS AND BUDGETARY ACCOUNTING**

The Village adopts budgets for the General Fund and Special Revenue Funds.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Village Council. All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted or amended by the Village Council throughout the operating year.

The legal level of control is at the activity level for the General Fund and the Special Revenue Funds.

The Administrator is authorized to transfer budgeted amounts between accounts within the same department. Revisions that alter the total expenditures of any fund or total activity expenditures in the General Fund and Special Revenue Funds must be approved by the Village Council.

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS FOR BUDGETARY FUNDS**

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures that are in excess of the amount appropriated. During the year ended February 28, 2005, the Village incurred expenditures in the General and Special Revenue Funds, which were in excess of the amounts appropriated in various activities as follows:



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**NOTES TO FINANCIAL STATEMENTS**

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	<u><b>Budget</b></u>	<u><b>Actual</b></u>	<u><b>(Unfavorable) Variance</b></u>
<b>GENERAL FUND</b>			
General government	\$ 285,053	\$ 346,803	\$ (61,750)
Public safety	208,157	212,745	(4,588)
Garbage collection	99,000	120,649	(21,649)
Airport	8,505	9,140	(635)
Community center	9,356	12,774	(3,418)
 <b>SPECIAL REVENUE FUNDS</b>			
<b>MAJOR STREETS FUND</b>			
Public works	238,700	333,181	(94,481)
<b>LOCAL STREETS FUND</b>			
Public works	81,290	134,275	(52,985)
<b>AIRPORT FUND</b>			
Public works	900	6,865	(5,965)
<b>PEET CENTER FUND</b>			
Public works	2,000	2,100	(100)

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**III. DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

A reconciliation of cash, pooled investments and investments as shown in the financial statement to the Village's deposits and investments is as follows:

	<b><u>Carrying Amount</u></b>
Government-wide Financial Statement Captions:	
Primary Government:	
Cash and cash equivalents	\$ 485,721
Restricted cash and cash equivalents	697,144
Component Unit:	
Cash and cash equivalents	109,788
Fiduciary Fund Financial Statement Captions:	
Cash and cash equivalents	<u>5,036</u>
Total	<u>\$ 1,297,689</u>
Notes to Financial Statements:	
Deposits	\$ 377,240
Investments	<u>920,449</u>
Total	<u>\$ 1,297,689</u>

Deposits - At February 28, 2005, the carrying amount of the Village's deposits was \$377,240 and the bank balance was \$379,730. Of the bank balance, \$100,000 was covered by Federal Depository Insurance and \$279,730 was neither insured nor collateralized.

The Village maintains a cash pool that is available for use by essentially all Village funds. The portion of this pool attributable to each separate fund type is shown on the Statement of Net Assets as "Cash and cash equivalents". In addition, various interest bearing savings and checking accounts, and investments are separately held by several of the Village's funds.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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***Investments***

The Village has adopted an investment policy in accordance with Public Act 20 and within this policy the Village Treasurer is authorized to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptance of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

The Village's investments are categorized to give an indication of the level of risk assumed by the Village at year end. Category 1 includes insured or registered, or securities held by the Village or the Village's agent in the Village's name. Category 2 includes uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the Village's name. Category 3 includes uninsured and unregistered, with securities held by the counterparty, or the counterparty's trust department or agent but not in the Village name.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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The carrying amount and fair value of investments by type are as follows.

	<b><u>Carrying Amount</u></b>	<b><u>Fair Value</u></b>
Uncategorized investments:		
Municipal investment funds	\$ <u>920,449</u>	<u>\$920,449</u>

**B. RECEIVABLES**

Receivables as of year end for the Village's governmental and business-type activities in the aggregate, are as follows:

	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>
Receivables:		
Taxes	\$ 37,290	\$ 8,667
Accounts	5,346	19,142
Intergovernmental	<u>61,130</u>	<u>-</u>
 Total receivables	 <u>\$ 103,766</u>	 <u>\$ 27,809</u>

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**C. CAPITAL ASSETS**

Capital asset activity for the year ended February 28, 2005 was as follows:

<b>Primary Government</b>	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Disposals</u></b>	<b><u>Ending Balance</u></b>
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 4,000	\$ -	\$ -	\$ 4,000
Capital assets being depreciated:				
Building	125,219	-	-	125,219
Machinery and equipment	404,594	-	(29,200)	375,394
Vehicles	350,528	-	-	350,528
Office equipment	<u>13,354</u>	<u>-</u>	<u>-</u>	<u>13,354</u>
Total capital assets being depreciated	<u>893,695</u>	<u>-</u>	<u>(29,200)</u>	<u>864,495</u>
Less accumulated depreciation				
Building	(70,491)	(430)	-	(70,921)
Machinery and equipment	(191,526)	(19,733)	2,000	(209,259)
Vehicles	(218,457)	(30,893)	-	(249,350)
Office equipment	<u>(12,536)</u>	<u>(205)</u>	<u>-</u>	<u>(12,741)</u>
Total accumulated depreciation	<u>(493,010)</u>	<u>(51,261)</u>	<u>2,000</u>	<u>(542,271)</u>
Total capital assets being depreciated, net	<u>400,685</u>	<u>(51,261)</u>	<u>(27,200)</u>	<u>322,224</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 404,685</u>	<u>\$ (51,261)</u>	<u>\$ (27,200)</u>	<u>\$ 326,224</u>

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated:				
Land	\$ 91,135	\$ -	\$ -	\$ 91,135
Capital assets being depreciated:				
Plant and facilities	5,697,018	33,177	-	5,730,195
Equipment	165,774	28,750	-	194,524
Vehicles	43,251	-	-	43,251
Total capital assets being depreciated	<u>5,906,043</u>	<u>61,927</u>	<u>-</u>	<u>5,967,970</u>
Less accumulated depreciation				
Plant and facilities	(1,935,720)	(116,180)	-	(2,051,900)
Equipment	(139,489)	(8,967)	-	(148,456)
Vehicles	<u>(39,751)</u>	<u>(1,400)</u>	<u>-</u>	<u>(41,151)</u>
Total accumulated depreciation	<u>(2,114,960)</u>	<u>(126,547)</u>	<u>-</u>	<u>(2,241,507)</u>
Total capital assets being depreciated, net	<u>3,791,083</u>	<u>(64,620)</u>	<u>-</u>	<u>3,726,463</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 3,882,218</u>	<u>\$ (64,620)</u>	<u>\$ -</u>	<u>\$ 3,817,598</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

General government	\$ 12,023
Public safety	7,361
Public works	<u>31,877</u>

**Total depreciation expense – governmental activities** **\$ 51,261**

**Business-type activities:**

Wastewater Treatment	\$ 86,084
Water	<u>40,463</u>

**Total depreciation expense – business-type activities** **\$ 126,547**

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**D. PAYABLES**

Accounts payable and accrued liabilities in the primary government are as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Payables:		
Accounts	\$ 63,116	\$ 17,047
Accrued liabilities	<u>5,989</u>	<u>22,424</u>
Total payables	<u>\$ 69,105</u>	<u>\$ 39,471</u>

**E. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The interfund receivable and interfund payable at February 28, 2005 consists of \$249,395 due from the Wastewater treatment fund to the Internal Service fund to cover the Wastewater Treatment fund's negative cash balance.

At February 28, 2005, the Village had an interfund advance outstanding of \$20,000. The original advance of \$50,000 was from the General Fund to the Wastewater Treatment fund as a subsidy.

The composition of interfund transfers for the year ended February 28, 2005, is as follows:

	<u>Transfer from:</u>			
Transfer to:	General	Internal Service	Water	Total
Wastewater Treatment fund	\$ -	\$ 4,100	\$ -	\$ 4,100
Internal Service	-	-	10,000	10,000
Nonmajor Governmental	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Total	<u>\$ 5,000</u>	<u>\$ 4,100</u>	<u>\$ 10,000</u>	<u>\$ 19,100</u>

The transfer from the General fund to the Nonmajor Governmental fund is for the purpose of funding sidewalk improvements. The transfer from the Internal Service fund to the Wastewater Treatment fund is for funding of the Northline and Jackson Street Sewer project. Finally, the transfer from the Water fund to the Internal Service fund is for the purchase of equipment for future years.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**F. LONG-TERM DEBT**

The following is a summary of long-term debt outstanding of the Village and component unit for the year ending February 28, 2005:

	<b><u>Beginning Balance</u></b>	<b><u>Additions (Reductions)</u></b>	<b><u>Ending Balance</u></b>	<b><u>Due within one year</u></b>
<b>Governmental activities:</b>				
Compensated Absences	\$ 35,192	\$ (19,789)	\$ 15,403	\$15,403
<b>Business-type activities:</b>				
Storm and Sanitary Sewer Revenue Bonds 1989-6.6%-7.15% are due serially through 2008	\$ 215,000	\$ (35,000)	\$ 180,000	\$40,000
Storm and Sanitary Sewer Revenue Bonds 1993-5.8% to 6.0% are due Serially through 2013	625,000	(30,000)	595,000	30,000
Water Supply System Revenue Bonds 1996-4.4%-6.4% are due serially through 2016	<u>755,000</u>	<u>(85,000)</u>	<u>670,000</u>	<u>45,000</u>
Total Business-Type Activities	<b><u>\$ 1,595,000</u></b>	<b><u>\$(150,000)</u></b>	<b><u>\$1,445,000</u></b>	<b><u>\$115,000</u></b>



**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due within one year</u>
<b>Component Units:</b>				
Downtown Development Authority Michigan Transportation Fund Bonds-1991-6.0%-9.0% are due serially through 2005	\$ 40,000	\$ (20,000)	\$ 20,000	\$ 20,000
Downtown Development Authority Michigan Transportation Fund Bonds-1994-6.2% to 8.0% are due serially through 2012	240,000	(10,000)	230,000	10,000
Downtown Development Authority General Obligation Bonds-6.5%-1994 are due serially through 2006	18,000	(6,000)	12,000	6,000
Street Lighting Equipment Notes-1991-7% interest are due serially through 2005	<u>\$ 9,152</u>	<u>\$ (8,000)</u>	<u>\$ 1,152</u>	<u>\$ 1,152</u>
<b>Total Component Units</b>	<b><u>\$ 307,152</u></b>	<b><u>\$ (44,000)</u></b>	<b><u>\$ 263,152</u></b>	<b><u>\$37,152</u></b>

For the governmental activities, compensated absences are generally liquidated by the general fund.

Annual debt service requirements to maturity for general obligation and revenue bonds and notes are as follows:

<u>Year Ending February 28</u>	<u>Business-type Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 115,000	\$ 82,021	\$ 37,152	\$ 18,070
2007	125,000	74,975	36,000	15,490
2008	125,000	67,422	30,000	13,120
2009	145,000	59,319	30,000	11,110
2010	95,000	52,256	30,000	9,070
2011-2015	760,000	132,513	100,000	14,350
2016	80,000	4,400	-	-
Total	<u>\$ 1,445,000</u>	<u>\$ 472,906</u>	<u>\$ 263,152</u>	<u>\$ 81,210</u>

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**IV. OTHER INFORMATION**

**A. DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The Village's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy**

The Village is required to contribute at an actuarially determined rate; the current rate is 26.39% for public works employees, 35.20% for supervisory employees, and 0.0% for police employees of annual covered payroll. Village employees are not required to contribute to the Plan. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

**Annual Pension Cost**

For the year ended February 28, 2005, the Village's annual pension cost of \$138,196 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Village's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest actuarial valuation, was 30 years.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2/28/03	\$ 94,766	100%	\$ 0
2/29/04	119,370	100	0
2/28/05	138,196	100	0

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/01	\$301,816	\$1,721,209	\$1,419,393	18%	\$334,812	424%
12/31/02	285,799	1,846,160	1,560,361	15	382,032	408
12/31/03	389,894	2,185,471	1,795,577	18	409,551	438

**B. RISK MANAGEMENT**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 28, 2005, the Village carried commercial insurance to cover all risk of losses. The Worker's Compensation insurance is the only retrospectively rated policy; any premiums accrued are based on the ultimate cost of the experience to date of the Village. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three fiscal years.

**C. CONTINGENCIES**

The Village is a defendant in several matters which involve various claims related to disciplinary proceedings, unfair labor practices and property tax appeals. Outside counsel has advised that the possibility of unfavorable outcomes do exist, but believe that this is not likely. If an unfavorable outcome does occur, legal counsel is currently unable to predict the amount of range of potential loss.

Under the terms of State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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reimbursement to the grantor agencies. However, Village management does not believe such disallowances, if any, will be material to the financial position of the Village.

The Village has an Administrative Consent Order with the Michigan Department of Environmental Quality regarding the Village's sewer overflows, which have occurred during the past three fiscal years. No liability has been recorded in the Wastewater Treatment Fund because the amount of any liability is currently undeterminable.

**D. PROPERTY TAXES**

Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 15. The Village levies taxes for general operating purposes, water and sewer improvements and street lighting.

Real property taxes not collected as of September 15 are turned over to Saginaw County for collection. The County remits the collections to the Village until the delinquent tax settlement date. Collection of delinquent personal property taxes remains the responsibility of the Village Treasurer. The assessed value of real and personal property located in the Village as of July 1, 2004, totaled \$49,351,402 representing 50% of estimated current value. The tax levy for that year was based upon the following rates:

	<b><u>Millage Rate Used</u></b>
General operating	10.10
Street lighting	0.90
Water improvement	1.00
Wastewater treatment	1.50

**E. SUBSEQUENT EVENT**

In March of 2005, the Village entered into a capital lease with General Motors Acceptance Corporation for the purchase of a 2005 GMC 8500. The principal portion of the lease is \$71,075 with an annual interest rate of 5.85%. The lease agreement requires five annual payments of \$15,875.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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**F.        RESTATEMENTS**

**Implementation of new accounting standards**

As of and for the year ended February 28, 2005, the Village implemented the following Governmental Accounting Standards Board pronouncements:

**Statements**

- ◆ No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- ◆ No. 37 – Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus
- ◆ No. 38 – Certain Financial Statement Note Disclosures

**Interpretation**

- ◆ No. 6 – Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The Village is required to implement the new requirements no later than the fiscal year ending February 28, 2005.

The more significant of the changes required by the new standards include:

- ◆ Management’s discussion and analysis;
- ◆ Basic financial statements that include:
  - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
  - Fund financial statements, consisting of a series of statements that focus on a government’s major governmental funds and enterprise funds;
  - Schedules to reconcile the fund financial statements to the government-wide financial statements;
  - Notes to the basic financial statements;
- ◆ Required supplementary information, including certain budgetary schedules.

**VILLAGE OF CHESANING**  
**NOTES TO FINANCIAL STATEMENTS**

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As a result of implementing these pronouncements for the fiscal year ended February 28, 2005, the following restatements were made to beginning net assets:

*Government-wide financial statements.*

Beginning net assets for governmental activities were determined as follows:

Fund balances of general and special revenue funds as of 2/29/04	\$ 664,356
Add: governmental capital assets, including general fixed assets, as of 2/29/04	284,432
Deduct: accumulated depreciation as of 2/29/04 on above governmental fixed assets	(194,161)
Add: net assets of governmental activities accounted for in the internal service funds	526,438
Add: net assets of governmental activities accounted for in the internal service funds in prior years allocated to business-type activities	(1,134)
Deduct: long-term portion of compensated absences payable	<u>(35,192)</u>
Governmental net assets, restated, as of 2/29/04	<u>\$ 1,244,739</u>

For the Business-Type Activities and Water Fund Statement of Net Assets for the year ended February 29, 2004, errors were made in accounting for capital assets accumulated depreciation. These errors have been corrected and had the following effect on the beginning net assets:

Beginning net assets, as previously reported, water fund	\$ 1,120,132
Adjustment to accumulated depreciation	<u>38,046</u>
Beginning net assets, as restated, water fund	<u>\$ 1,158,178</u>

**VILLAGE OF CHESANING, MICHIGAN**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS**

**FEBRUARY 28, 2005**

	<b>SPECIAL</b>		
	<b>LOCAL STREETS</b>	<b>STREET LIGHTING</b>	<b>SIDEWALK IMPROVEMENT</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 10,068	\$ 50,583	\$ 13,760
Taxes receivable - delinquent	-	3,217	-
Due from component units	-	22	-
Due from other governmental units	4,264	-	-
<b>TOTAL ASSETS</b>	<b>\$ 14,332</b>	<b>\$ 53,822</b>	<b>\$ 13,760</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 1,397	\$ 5,618	\$ -
Accrued liabilities	779	-	-
<b>TOTAL LIABILITIES</b>	<b>2,176</b>	<b>5,618</b>	<b>-</b>
<b>FUND BALANCES</b>			
Unreserved - undesignated	12,156	48,204	13,760
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 14,332</b>	<b>\$ 53,822</b>	<b>\$ 13,760</b>

# REVENUE FUNDS

AIRPORT	DPW BUILDING	PEET CENTER	TOTAL
\$ 11,746	\$ 44,770	\$ 4	\$ 130,931
-	-	-	3,217
-	-	-	22
-	-	-	4,264
\$ 11,746	\$ 44,770	\$ 4	\$ 138,434

\$ 57	\$ -	\$ -	\$ 7,072
-	-	-	779
57	-	-	7,851
11,689	44,770	4	130,583
\$ 11,746	\$ 44,770	\$ 4	\$ 138,434



**VILLAGE OF CHESANING, MICHIGAN**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	<b>SPECIAL</b>		
	<b>LOCAL STREET</b>	<b>STREET LIGHTING</b>	<b>SIDEWALK IMPROVEMENT</b>
<b>REVENUES</b>			
Taxes	\$ -	\$ 41,461	\$ -
Intergovernmental:			
State	54,255	-	-
Rental income	-	-	-
Interest	654	230	-
Other	-	-	2,400
<b>TOTAL REVENUES</b>	<b>54,909</b>	<b>41,691</b>	<b>2,400</b>
<b>EXPENDITURES</b>			
Public works	134,275	32,729	-
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(79,366)</b>	<b>8,962</b>	<b>2,400</b>
<b>OTHER FINANCING SOURCES</b>			
Transfers in	-	-	5,000
<b>NET CHANGE IN FUND BALANCES</b>	<b>(79,366)</b>	<b>8,962</b>	<b>7,400</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>91,522</b>	<b>39,242</b>	<b>6,360</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 12,156</b>	<b>\$ 48,204</b>	<b>\$ 13,760</b>

**REVENUE FUNDS**

AIRPORT	DPW BUILDING	PEET CENTER	TOTAL
\$ -	\$ -	\$ -	\$ 41,461
-	-	-	54,255
2,337	-	-	2,337
37	371	3	1,295
650	-	-	3,050
3,024	371	3	102,398
6,865	-	2,100	175,969
(3,841)	371	(2,097)	(73,571)
-	-	-	5,000
(3,841)	371	(2,097)	(68,571)
15,530	44,399	2,101	199,154
\$ 11,689	\$ 44,770	\$ 4	\$ 130,583

**VILLAGE OF CHESANING, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
LOCAL STREETS FUND**

**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES</b>				
Intergovernmental:				
State	\$ 47,300	\$ 47,300	\$ 54,255	\$ 6,955
Interest	240	240	654	414
<b>TOTAL REVENUES</b>	47,540	47,540	54,909	7,369
<b>EXPENDITURES</b>				
Public works:				
Wages	46,800	46,800	14,411	32,389
Fringe benefits	5,768	5,768	6,120	(352)
Materials and supplies	8,722	8,722	5,248	3,474
Professional services	5,000	5,000	88,113	(83,113)
Equipment rental	15,000	15,000	20,383	(5,383)
<b>TOTAL EXPENDITURES</b>	81,290	81,290	134,275	(52,985)
<b>REVENUES (UNDER) EXPENDITURES</b>	(33,750)	(33,750)	(79,366)	(45,616)
<b>OTHER FINANCING SOURCES</b>				
Transfers in	33,750	33,750	-	(33,750)
<b>NET CHANGE IN FUND BALANCES</b>	-	-	(79,366)	(79,366)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	91,522	91,522	91,522	-
<b>FUND BALANCES, END OF YEAR</b>	\$ 91,522	\$ 91,522	\$ 12,156	\$ (79,366)

**VILLAGE OF CHESANING, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
STREET LIGHTING FUND**

**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES</b>				
Taxes	\$ 43,517	\$ 43,517	\$ 41,461	\$ (2,056)
Interest	150	150	230	80
<b>TOTAL REVENUES</b>	43,667	43,667	41,691	(1,976)
<b>EXPENDITURES</b>				
Public works:				
Streetlights	45,500	45,500	32,729	12,771
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(1,833)	(1,833)	8,962	10,795
<b>OTHER FINANCING (USES)</b>				
Transfers (out)	(2,800)	(2,800)	-	2,800
<b>NET CHANGE IN FUND BALANCES</b>	(4,633)	(4,633)	8,962	13,595
FUND BALANCE, BEGINNING OF YEAR	39,242	39,242	39,242	-
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 34,609</u>	<u>\$ 34,609</u>	<u>\$ 48,204</u>	<u>\$ 13,595</u>

**VILLAGE OF CHESANING, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
SIDEWALK IMPROVEMENT FUND**

**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES</b>				
Other	\$ 7,346	\$ 7,346	\$ 2,400	\$ (4,946)
<b>EXPENDITURES</b>				
Public works:				
Sidewalks	10,000	10,000	-	10,000
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(2,654)	(2,654)	2,400	5,054
<b>OTHER FINANCING SOURCES</b>				
Transfers in	7,710	7,710	5,000	(2,710)
<b>NET CHANGE IN FUND BALANCES</b>	5,056	5,056	7,400	2,344
FUND BALANCE, BEGINNING OF YEAR	6,360	6,360	6,360	-
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 11,416</u>	<u>\$ 11,416</u>	<u>\$ 13,760</u>	<u>\$ 2,344</u>

**VILLAGE OF CHESANING, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
AIRPORT FUND**

**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES</b>				
Rental income	\$ -	\$ -	\$ 2,337	\$ 2,337
Interest	-	-	37	37
Other	1,163	1,163	650	(513)
<b>TOTAL REVENUES</b>	1,163	1,163	3,024	1,861
<b>EXPENDITURES</b>				
Public works:				
Materials and supplies	900	900	6,865	(5,965)
<b>NET CHANGE IN FUND BALANCES</b>	263	263	(3,841)	(4,104)
FUND BALANCE, BEGINNING OF YEAR	15,530	15,530	15,530	-
<b>FUND BALANCE, END OF YEAR</b>	\$ 15,793	\$ 15,793	\$ 11,689	\$ (4,104)

**VILLAGE OF CHESANING, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
DPW BUILDING FUND**

**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES</b>				
Interest	\$ -	\$ -	\$ 371	\$ 371
FUND BALANCE, BEGINNING OF YEAR	44,399	44,399	44,399	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 44,399</b>	<b>\$ 44,399</b>	<b>\$ 44,770</b>	<b>\$ 371</b>

**VILLAGE OF CHESANING, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
PEET CENTER FUND**

**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES</b>				
Interest	\$ -	\$ -	\$ 3	\$ 3
Donations	2,099	2,099	-	(2,099)
<b>TOTAL REVENUES</b>	2,099	2,099	3	(2,096)
<b>EXPENDITURES</b>				
Public works:				
Materials and supplies	2,000	2,000	2,100	(100)
<b>NET CHANGE IN FUND BALANCES</b>	99	99	(2,097)	(2,096)
FUND BALANCE, BEGINNING OF YEAR	2,101	2,101	2,101	-
<b>FUND BALANCE, END OF YEAR</b>	\$ 2,200	\$ 2,200	\$ 4	\$ (2,096)



**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF NET ASSETS  
COMPONENT UNITS**

**FEBRUARY 28, 2005**

<b>ASSETS</b>	<b>DOWNTOWN DEVELOPMENT AUTHORITY</b>	<b>ECONOMIC DEVELOPMENT CORPORATION</b>	<b>TOTAL</b>
Cash and cash equivalents	\$ 107,172	\$ 2,616	\$ 109,788
Receivables	76,252	-	76,252
<b>TOTAL ASSETS</b>	<b>183,424</b>	<b>2,616</b>	<b>186,040</b>
<b>LIABILITIES</b>			
Accounts payable	8,155	-	8,155
Noncurrent liabilities:			
Due within one year	37,152	-	37,152
Due in more than one year	226,000	-	226,000
<b>TOTAL LIABILITIES</b>	<b>271,307</b>	<b>-</b>	<b>271,307</b>
<b>NET ASSETS (DEFICIT)</b>			
Unrestricted	\$ (87,883)	\$ 2,616	\$ (85,267)

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING**  
**STATEMENT OF ACTIVITIES - COMPONENT UNITS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	Component Units		
	Downtown Development Authority	Economic Development Corporation	Total
<b><u>Expenses</u></b>			
Governmental activities:			
Health and welfare	\$ (27,352)	\$ -	\$ (27,352)
Interest on debt	(25,708)	-	(25,708)
Total	<u>(53,060)</u>	<u>-</u>	<u>(53,060)</u>
Net (expense) revenue	<u>(53,060)</u>	<u>-</u>	<u>(53,060)</u>
General revenues:			
Property taxes	125,408	-	125,408
Unrestricted investment earnings	<u>1,066</u>	<u>8</u>	<u>1,074</u>
Total general revenues	<u>126,474</u>	<u>8</u>	<u>126,482</u>
Change in net assets	73,414	8	73,422
Net assets, (deficit) beginning of year, as restated	<u>(161,297)</u>	<u>2,608</u>	<u>(158,689)</u>
<b>Net assets, (deficit) end of year</b>	<u><u>\$ (87,883)</u></u>	<u><u>\$ 2,616</u></u>	<u><u>\$ (85,267)</u></u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET  
DOWNTOWN DEVELOPMENT AUTHORITY**

**FEBRUARY 28, 2005**

	DOWNTOWN DEVELOPMENT AUTHORITY	ADJUSTMENTS	STATEMENT OF NET ASSETS
<b>ASSETS</b>			
Cash and cash equivalents	\$ 107,172	\$ -	\$ 107,172
Accounts receivable	3,144		3,144
Taxes receivable - delinquent	73,108	-	73,108
<b>TOTAL ASSETS</b>	<u>\$ 183,424</u>	<u>\$ -</u>	<u>\$ 183,424</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 548	\$ 7,607	\$ 8,155
Due to primary government	3,154	(3,154)	-
Noncurrent liabilities:	-	-	-
Due within one year	-	37,152	37,152
Due in more than one year	-	226,000	226,000
<b>TOTAL LIABILITIES</b>	3,702	267,605	271,307
<b>FUND BALANCES</b>			
Unreserved - undesignated	179,722	(179,722)	-
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 183,424</u>	<u>87,883</u>	<u>271,307</u>
<b>NET ASSETS (DEFICIT), unrestricted</b>		<u>\$ (87,883)</u>	<u>\$ (87,883)</u>

**VILLAGE OF CHESANING, MICHIGAN**

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
DOWNTOWN DEVELOPMENT AUTHORITY**

**FOR THE YEAR ENDED FEBRUARY 28, 2005**

	DOWNTOWN DEVELOPMENT AUTHORITY	ADJUSTMENTS	STATEMENT OF ACTIVITIES
<b>REVENUES</b>			
Taxes and special assessments	\$ 125,408	\$ -	\$ 125,408
Interest	1,066	-	1,066
<b>TOTAL REVENUES</b>	126,474	-	126,474
<b>EXPENDITURES / EXPENSES</b>			
Health and welfare	27,352	-	27,352
Debt service	65,255	(39,547)	25,708
<b>TOTAL EXPENDITURES / EXPENSES</b>	92,607	(39,547)	53,060
<b>CHANGE IN FUND BALANCES / NET ASSETS</b>	33,867	39,547	73,414
FUND BALANCES/NET ASSETS (DEFICIT), BEGINNING OF YEAR, AS RESTATED	145,855	(307,152)	(161,297)
<b>FUND BALANCES/NET ASSETS (DEFICIT), END OF YEAR</b>	\$ 179,722	\$ (267,605)	\$ (87,883)



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

May 13, 2005

To the Village Council  
Village of Chesaning  
Chesaning, Michigan

In planning and performing our audit of the general purpose financial statements of the ***Village of Chesaning*** for the year ended February 28, 2005, we considered the Village's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the primary government financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Village personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the management and personnel for their support and assistance during the audit of the ***Village of Chesaning***.

# **VILLAGE OF CHESANING**

## **COMMENTS AND RECOMMENDATIONS**

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### **A) SEWER FUND NEGATIVE CASH BALANCE IN POOLED ACCOUNT**

The Village maintains a pooled checking account for several funds of the Village. During the year some funds carry negative cash balances, which are offset by positive balances in other funds. The Sewer Fund has had a negative cash balance for several years and at the end of the current fiscal year had a negative balance of approximately \$250,000. This negative balance is primarily the result of the user fees received not being sufficient to cover expenses that were paid. Because the Village faces significant repair and maintenance costs as a result of requirements imposed by the Michigan Department of Environmental Quality, this situation is expected to continue in the future.

In order to maintain control over the situation, we recommend that the Village establish limits that set a maximum negative pooled account balance for the Sewer Fund. We also recommend that the Village review the current rate structure and determine if the user fees generated will be sufficient to cover operating expenses, current debt service requirements, and the expected future construction and debt service requirements.

### **B) UNIFORM ACCOUNTING AND BUDGETING ACT**

The Village did not formally adopt the budget for the years ended February 28, 2005 and February 28, 2006 until March 2, 2004 and March 1, 2005, respectively. However, the Village is required by the Uniform Accounting and Budgeting Act to adopt a budget for the general and all special revenue funds prior to the commencement of the Village's fiscal year.

We recommend that the Village review its budgeting timetable to ensure that a formal budget is adopted in accordance with requirements of the State of Michigan.

### **C) SEGREGATION OF DUTIES**

Currently there is one employee who is responsible for the collection of cash over the counter, opening of mail, recording receipts in the general ledger, the reconciliation of the cash drawer, and the preparation of the cash and checks for the weekly deposit. This lack of segregation of duties in the cash receipting process creates a higher risk for misappropriation of assets and undetected errors.

We recommend that the Village consider a reallocation of duties whereby another individual without normal access to cash receipts participate in the reconciliation of the cash drawer and the preparation of the cash and checks for the weekly deposit. Incorporation of another employee into the process will reduce the risk of misappropriation of assets and undetected errors.

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